

TRANSMITTAL SLIP

20 Jan  
DATE

TO

STAT

BUILDING

ROOM NO.

*Suite*

*189*

REMARKS:

*From  
ECA  
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FROM:

*Hoover*

BUILDING

ROOM NO.

*Suite*

*117*

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~~RESTRICTED~~PROPER AND IMPROPER USE OF THE WEAPON OF TRADE MANIPULATIONIntroductory Statement

Mathematical data, statistics and reports of eye-witnesses have a peculiar fascination due to the belief that inasmuch as they disclose what the facts are, a correct decision automatically results from their contemplation, however heterogeneous the collection of facts may be. This is wrong. At best, even after being ordered and properly related to all other known facts, such data merely disclose what the situation was several months back and any decision based solely upon them can be no more than one which would have been correct some time ago, but may be very wrong today.

There is, however, a proper and important use for statistics and reports, particularly changes in them, - they are pieces of evidence which help to disclose the movement of the opponent, where he is going from where he was, and this movement is the ultimate fact which we are after.

Only by thinking in terms of movement can we be constantly reminded that the opponent is alive, with an objective and a will of his own. Every action by us will result in a reaction by him.

Because the manipulation of trade, by increases as well as decreases, is a form of warfare, it is not inappropriate to refer to the fact that Marshall Foch deprecated study limited to material things (forts, tons of armament, etc.) and attributed the superiority of

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Scharnhorst and Clausewitz to this:- "In order to know and understand war they had not confined themselves to examining the tool which is used in warfare, and taking it to pieces in its component material parts without taking man--who uses it--into account." (It should be remembered that Lenin, a very competent revolutionary, learned his strategy and tactics from a study of the writings of Clausewitz.)

Finally, there is in any kind of warfare only one manner of facing questions,- the objective manner. Every operation seeks an objective which, when once determined, fixes the weapon to be employed and the proper use which should be made of it.

It is the purpose of this paper to point out the proper and improper methods of using trade manipulation as a weapon.

I. The Objective Situation.

It may be assumed that the opponent has determined to destroy us, otherwise he would not be an opponent.

The place of the proposed destruction has been fixed by geography,- it is the United States because that is where we are. Methods and time are unknown, but they can be guessed at with reasonable accuracy.

The characteristics of the two opponents seem to be about as follows:- He outweighs us in tonnage of men, but he lacks adequate transport and an industrial machine to sustain them in anything but a short campaign. We outweigh him in tonnage of transport and industrial machine, but we lack manpower.

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Thus neither side seems ready at the moment to move its main body forward to seek the decisive battle which is to result in the utter destruction of the opposing main body. That does not mean that fighting cannot go on in the meantime. Prior to the decisive battle there is a period when advance and flank guards engage, preceded and accompanied by diplomatic jockeying to improve position. Analysis is often confused because of the tendency to think in terms of peace or war, instead of controversy, which includes both, in that order. The following conclusion seems to be correct:-

We have not yet arrived at the time when the main bodies engage in the decisive battle to give the knock-out blow, but we have passed beyond the period of diplomatic manoeuvring as the sole weapon. We must therefore be in the middle period, when advance guards engage. This began in 1948 with the Marshall Plan and has continued with the Berlin blockade, guerrilla warfare against Greece, propaganda efforts, Point IV and action in Korea. It is now proposed to include trade control and manipulation in this activity on an increased scale, but this will do more harm than good unless it be first understood that trade control people are part of the advance guard,- they very definitely are not the main body which alone has the job of delivering the knock-out blow.

II. The Duties of the Advance Guard

These can be simply stated, though execution is difficult.

They are:

1. To reconnoitre and to obtain information up to the last minute. This means keeping, not breaking, contact.

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2. To probe for and exploit weakness, for which it must have sufficient and the right kind of force.

3. To keep the opponent off balance and to delay him by presenting unexpected situations.

4. To fix the opponent in position and to prepare the way for the final decisive blow.

It must not be thought that the decisive blow which destroys the enemy war potential is always a battle. It may be an internal collapse, as Russia in 1917, or an outbreak of factionalism, as in Tamerlane's empire after his death. The composition of the advance guard and the nature and extent of its activity must depend upon an appraisal of the enemy, because it is designed to operate against Russia, not in a vacuum.

### III. Appraisal of Russia

Russia likes to picture herself and her satellites as a monolithic bloc whose happy people joyously respond to the directions of their mighty Stalin, father of all mankind, in building a socialist society where evil men do not do so well. It is obvious, however, that she is a lumbering, inefficient bureaucracy, shot through with graft, corruption, favoritism and factionalism, holding her subject peoples by force and not by their own free wills.

The ultimate objective is to destroy her military power, but the immediate objective, entrusted to the advance guard, is to exploit her weaknesses by the coordinated efforts of all its various services,- military, diplomatic, propaganda, economic aid and trade manipulation.

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Russia also has immediate objectives. In trade, in addition to acquiring militarily important items, it is to tie the economies of her satellites to her and to increase, through trade, her power to penetrate other countries. The Molotov Plan and the trade agreement with Iran will serve as examples. It would indeed be unfortunate if our advance guard so conducted its activities that the Russian advance guard is assisted to its objectives. Yet that may happen if we employ the simple, direct method of adopting a definition of a strategic item and then assuming that disadvantage always follows the export of such an item irrespective of what is received in return or of what would happen to the trade if dislocated.

#### IV. The General Composition of Trade

Trade is not a simple thing which can be turned off like a faucet. Every action sets in motion a chain of reactions and unless the end is in sight, and known to be favorable, there is no point to the action. It may also be assumed that the more highly developed and complicated the industrial machine is, the more susceptible it is to injury from dislocations. On the other hand, the more primitive or undeveloped it is, the more dissatisfaction it gives its possessors provided they know that there is a better machine somewhere else which their rulers prevent their having. The first seems to be the situation in Western, and the second in Eastern, Europe.

For present purposes the general pattern of trade between the West and the Soviet bloc may be thus stated, in over-simplified form: Various raw materials, grain, timber and coal arrive from the Soviet bloc. The West takes these, feeds and houses its workers, runs its

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factory and power plant boilers and produces goods, including machinery, equipment and consumer goods, some of which go directly to its military machine, some to its civilian population, some to the Soviet bloc, and some to third countries such as the Near East. The Soviet bloc puts the machinery and equipment to work turning out goods for the military machine, for the civilian population, for export to third countries and for export to the West, where the process starts all over again. Each produces and trades consumer goods with the other. The Soviet bloc has concentrated upon building industrial potential, neglecting its production of consumer goods to the detriment of its civilian morale.

*misdirect!*

The Russian attempt, through the Molotov Plan, to reorient to her the trade of the satellites has failed because the Soviet bloc does not produce enough consumer goods for the civilian population and produces more grain and coal than they need.

To shorten description the expression "Soviet bloc" has been used. In reality there is no such thing and use of that term misrepresents the satellites as enemy territory. They are in fact conquered territories, with governors sent from Moscow, but the population consists of many races and religions which have been fighting among themselves and with the Russians for centuries. These people, and dissident factions within Russia, are the Achilles heel of Stalinist imperialism. To exploit this situation is chiefly the job of the propaganda service, but the trade control service can help.

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V. The Trade Control Operation

The word "operation" should be stressed because it must be constantly borne in mind that it is a continuing thing which, like all other operations, seeks an objective and is not an end in itself. It is also subject to the law of diminishing returns. There always comes a point beyond which the results accomplished do not justify the time, manpower and money devoted to accomplishing them. The choice often presented is between concentrating upon creating bottlenecks and scattering efforts over a wide territory, causing merely indiscriminate and minor inconvenience. *more than that*

The following operational principles should govern:

1. The various services in the advance guard should coordinate their efforts and act as a unit. It is impermissible for the services to disperse, each one running off to fight the enemy by itself, when and where it wishes.
2. Complete freedom of mind and flexibility of action must be maintained, otherwise the ability to manoeuvre, to create surprises, is lost. Warfare, economic as well as shooting, is an art, not a science, and no mathematical formula can be evolved from statistics which will insure success.
3. Every decision in the trade control field involves, to a varying extent, many elements, principally (a) the functioning of the economic machine, here and abroad, as a base upon which military potential is constructed; (b) the technical military situation; (c) our immediate political objectives, - acquiring allies, neutralizing uncertain countries, winning over supporters of the opponent.

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4. A judgment based upon a consideration of one element only, or upon a too rigid insistence upon one element, may fail to reach the objective because one or more of the other elements may be brought into play to influence the situation adversely.

5. The problem must be treated as an integrated whole, unlimited in geographical extent, no part being capable of any real existence as an independent entity separated from the other parts.

#### VI. Examples of the Use of Trade Controls

Improper use results from attributing to trade controls a crushing power which they do not have. This in turn results from a failure to analyze the objective situation correctly. It is true that we have been engaged in controversy (war) with Russia for the past five years, but it is not true that we have reached the stage when main bodies engage,

*different weapons are used for different purposes - each should prevent a build up*  
each with the purpose of crushing the other. Transferring to the advance guard a function of the main body, which the guard does not have the strength to perform, results not only in failure to accomplish that

mission but also in the neglect, by the guard, of its proper duties, which it can perform.

*do these items only have a direct bearing on military production*  
Thus an order forbidding American ships to call at Soviet bloc ports would not stop trade in strategic items, foreign bottoms being available, but it would break, not maintain, contact between agents ashore and those aboard ship, if there were any such. Also, if strategic items are already under control, the extension of embargo to all items can cause no real damage to an enemy and can only result in dispersion of effort, - time and money which should be concentrated upon a few

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important matters are dissipated in handling papers having to do with such things as playing cards, golf clubs, used ladies hats, canned fish, etc.

*do those who are  
no supposed to  
get sets?*

It is also true that one service may block the efforts of another. Thus, we are devoting a great deal of time and effort to penetrating the Iron Curtain by Voice of America programs. But, they cannot be listened to without sets and tubes. If these be cut off, because some have gone to the military, the trade control service will neutralize the efforts of the propaganda service. Also, coercing an ally, through withholding exports, to increase its list of controlled items beyond what it deems to be reasonable may well result in laxer controls, because of resentment and dispersion of the ally's effort, resulting in the smuggling out of really important items when none were shipped before.

The impropriety of a proposed use of trade controls will generally show up if the question be asked, What is the specific objective? It will be safe to assume that the proposed use is improper if the answer be some generality, such as, to protect the United States, to injure the enemy, to create a bottleneck (what bottleneck?).

It is generally not very helpful to discuss general principles unrelated to specific cases, but a few examples might illustrate the proper method.

When correctly used trade controls are pointed to a definite objective, such as a specific bottleneck or dislocation, or the increase in bad feeling among the opponent's supporters. Such opportunities exist, Polish coal for example. At present Western countries are under

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pressure to make deals with Poland for coal. If two or three of the smaller countries were backed by a few million dollars worth of American coal, they could walk out of the conference and the pressure would be transferred to Poland, whose coal would have nowhere else to go. At the same time, the flow of textile machinery, cotton and consumer goods to Czechoslovakia might be increased. Later, the flow to the Czechs could be cut off and finished textiles sold to Poland.

The plan proposed for coal would not, however, be advantageous in the case of timber and grain. In many cases, lumber is the bottleneck in Russia. If it were refused import into Western Europe the satellites owning it would be forced to make it available within the bloc and our action might therefore aid the opponent to eliminate some bottlenecks. Grain similarly rejected could be used by the opponent to increase its influence in famine areas such as India, - a most undesirable result. It could well be that dollars and shipping devoted to supplying American timber and grain might better be devoted to other enterprises.

On the other hand, our allies could be offered payment in dollars for materials which they might procure for our stockpile from Russia and her satellites. They would then be in a position to increase their offering of consumer goods and lesser strategic goods in return for such materials. If the deal went through, two objectives would be gained; if it did not, at least the objective would have been gained of increasing dissatisfaction among the people (consumers) within the bloc.

The above is sufficient to illustrate methods.

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